UNITED
NATIONS

TD

United Nations Conference
on Trade and Development

Distr.
GENERAL

TD/B/41(2)/4 (Summary)
6 March 1995

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Forty-first session
Second part
Geneva, 20 March 1995
Item 4 of the provisional agenda

The Least Developed Countries 1995 Report

Executive summary

Prepared by the UNCTAD secretariat

GE.95-50608

Executive summary

This Report has been prepared keeping in mind the High-level Intergovernmental Meeting on the Mid-term Global Review of the Implementation of the Programme of Action for the Least Developed Countries for the 1990s, to be held from 26 September to 6 October 1995. In this context, it is fitting to recall that the Programme of Action inaugurated a new approach to development and international cooperation. In the Programme, development is regarded as a wider and more complex process that embraces a range of non-economic factors and objectives including, in particular, those relating to social development, respect for human rights and popular participation in the development process. At the same time, the Programme acknowledges the reality that economic growth in LDCs is indispensable to the achievement of these objectives. In this new approach, international cooperation for development is viewed as a matter of solidarity and partnership. Accordingly, the Programme of Action primarily emphasizes shared responsibility and strengthened joint efforts as the key to the successful achievement of the overriding objective of reactivating and accelerating growth and sustained development in LDCs.

The Programme was formulated against certain expectations including developments in the domestic and international economic environment and was predicated on the premise that further deterioration in the socio-economic situation of LDCs would be arrested. However, within a short time following the adoption of the Programme of Action, a number of LDCs were seriously affected by various problems, including man-made and natural disasters, while others were coping with the consequences of the Structural Adjustment Programmes (SAPs) and policy reforms that gave rise to certain short-term socio-economic difficulties and that were not always conducive to their long-term development. On the other hand, it was assumed in the Programme of Action that the increased global economic growth would permit a much strengthened external support to LDCs. However, the onset of a deep global recession following the Paris Conference had adverse consequences for the provision of external finance to LDCs. These unforeseen domestic and international developments that occurred in the immediate aftermath of the Paris Conference had important implications for the overall implementation of the Programme of Action during the first half of the 1990s. The High-level Intergovernmental Meeting on the Mid-term Global Review of the Implementation of the Programme of Action offers a unique forum for LDCs and their development partners to make an in-depth and comprehensive appraisal of the socio-economic developments in LDCs in the early 1990s and to consider and agree on concrete national and international measures and actions to accelerate the pace of the Programme's implementation.

The Meeting acquires even greater significance in view of the rapid pace of globalization of the world economy. For LDCs to break away from their marginalization and to participate more actively in the global economic processes, it is imperative that they and their partners devise policies and measures to widen and deepen the external orientations of their economies and, at the same time, address their domestic economic and social problems. This dual challenge will require strengthened national policies and international measures in favour of LDCs to ensure the timely and adequate implementation of the Programme of Action during the second half of the 1990s. LDCs will need to further strengthen their national development efforts which, as has been testified by those that have improved their performance, can make a difference.

However, without the benefit of sustained international support, LDCs will most probably become further marginalized as the process of globalization gains further momentum. Adequate external support is of particular significance since, without the cooperation of the international community, the prospects of greater participation of LDCs in the global international market-place will be highly uncertain. The improved economic performance by a number of LDCs and the successful transition to peace by others are an eloquent testimony to the importance of international support; these countries' achievements would not have been possible without the involvement of the international community. Therefore, it is imperative that the development partners continue to support LDCs with optimism and vigour and with a view to ensuring that the gains so painfully acquired over the past years are not lost.

The success of the Mid-term Review will depend to a significant extent on the adequacy of responses by LDCs and their development partners to these challenges. The spirit of international solidarity and partnership underpinning the Programme of Action must now be translated into vigorous, adequate and sustained national actions and international support measures on their behalf.

Socio-economic performance of LDCs in the early 1990s

LDCs' overall economic conditions continue to be bleak. Instead of reversing the economic deterioration in LDCs as a whole in the early 1990s, these years actually marked a period of decline following two decades of stagnation. The combined annual average growth rate of LDCs during 1990-1993 was 1.6 per cent and is estimated to be even lower for 1994 - at around 1.4 per cent. This trend is particularly disquieting because the situation is worse than in the 1980s, which was regarded as a lost decade for LDCs. Unfortunately, their performance is in contrast with the broad-based recovery of the world economy during 1994-1995.

However, although LDC economies face almost identical structural problems and are confronted by similar conditions of access to product markets and to external finance, their development experiences have become more heterogeneous over the years. So despite the overall bleak picture, as many as 12 LDCs (Bangladesh, Benin, Cambodia, Equatorial Guinea, Guinea-Bissau, the Lao People's Democratic Republic, Lesotho, Mozambique, Myanmar, Sao Tome and Principe, the Solomon Islands and Sudan) have improved their performance and most have had notable increases in their per capita output during the first half of the 1990s. A strong expansion of agricultural production, internal stability, strong government commitments, a sound political and regulatory framework for development, complemented by significant external support, among other factors, have contributed to raising economic growth rates. At the other end of the spectrum are several countries whose development experiences have been dominated by a range of non-economic factors. Thus, domestic and exogenous problems, such as civil conflicts, political instability, refugees and internally displaced persons, recurrent droughts, floods and devastating cyclones have had an adverse impact on these countries' socio-economic conditions.

The lack of progress made in improving the socio-economic performance of most LDCs in recent years is attributable to a set of factors which are summarized below.

Impact of policy reforms

Over the past several years, many LDCs have undertaken wide-ranging reform policies and measures. As they moved along the reform path, the reform objectives took on more complex and ambitious characteristics, shifting from the limited concerns of macroeconomic imbalances and stabilization to promoting development by a plethora of market-oriented reforms, including improving economic efficiency, curbing public-sector intervention, encouraging the private sector and liberalizing the external trade sector. The pace and scope of these reforms, which have been painful, contrast sharply with the meagre results achieved in most LDCs. While the need for reforms is not disputed, LDCs have been expected to implement policies not always designed to suit their conditions, and to accomplish too much, too soon - and with too few resources. So it is not surprising that, despite some positive developments in a few LDCs, the reform process has not lifted the structural constraints in many LDC economies nor improved their supply capacity.

A few important lessons can be drawn from the experiences of LDCs in this regard. First, reform measures must be designed to take better account of the structural characteristics, specific needs and level of development of each country as well as the importance of the expansion of supply capacity. Second, the roles to be played by the market, firms, States and institutions in structural transformation will be determined by each country's conditions. In addition, ensuring macroeconomic stability and consistency of policy formulation and implementation, maintaining realistic exchange rates and improving the public sector's efficiency are critical to the success of the reform efforts. The design of reform packages requires complementary efforts, particularly through mobilization of domestic financial and human resources. And finally, the degree of success will depend on the external economic environment, including adequate and appropriate external financing. It is particularly important to provide the requisite, quick-disbursing assistance to facilitate stabilization and short- to medium-term adjustment measures.

Political conflicts and civil strife

Another reason for the overall poor performance of several LDCs has been political conflicts and civil strife that have frequently led to armed hostilities, large-scale displacements of populations and a breakdown of the system of governance. The subsequent severe economic and social dislocations and output loss have created further impoverishment of people already at the brink of survival. As a result of these developments, the capacities of States to provide effectively the minimum requisites of a modern economy have been diminished. In view of this, greater emphasis will have to be given in the affected LDCs to rebuilding and strengthening these capacities to enable the States to perform essential functions. Bringing these conflicts to an early and peaceful conclusion is the most important precondition for reactivating the development process in these LDCs. This, in turn, will require multifaceted actions not envisaged at the Paris Conference.

Performance in the productive sectors

For most LDCs, the performance of the productive sectors (viz., agriculture, industry and infrastructure) has not been encouraging. During the early 1990s, agriculture was

characterized by lags in production growth relative to that of the population, declines in terms of trade and loss of market shares for traditional agricultural commodities. Exogenous factors, including drought and sluggish world demand and prices, contributed to the poor performance. Moreover, years of domestic policy biases against agriculture - which, *inter alia*, suppressed real producer prices, taxed agriculture with overvalued exchange rates and cheap food imports, and neglected agricultural support services and investment - were important in shaping this sector's performance. A particularly disquieting trend in many LDCs is the growing incidence of man-made food emergencies arising from wars and related population displacements, which is the single most important cause of food insecurity in Africa. Enhancing food production and achieving food security remain a priority for LDCs and will require expansion and/or intensification of arable land and improved production through better provision of required inputs.

Notwithstanding the wide variation in the manufacturing growth rates among LDCs, the performance of the manufacturing sector has weakened in recent years. While some one-third of LDCs maintained a positive growth of manufacturing value added (MVA) in the 1980s and early 1990s, most LDCs experienced stagnation and even declines in manufacturing output. The average MVA growth rate for LDCs as a whole turned negative in the 1990s. There are many reasons for the failure of the manufacturing industry in the majority of LDCs. In addition to the problems arising from past policies and strategies, manufacturing activities were constrained by low investment, import compression and the policy environment, including the impacts of adjustment and reform. To revitalize the manufacturing activities, it is important to undertake selective interventions to remove constraints caused by structural deficiencies, market limitations, paucity of endowments and inadequate policies. The international community can play an important role in supporting LDC efforts to overcome these constraints and the difficulties created by external factors.

Lack of progress in establishing necessary physical infrastructure in LDCs continues to be a major handicap to providing the required services needed to support the expansion of the production base and the commercial sector in the LDCs. Insufficient physical infrastructure, particularly road transport and communications, is more evident in land-locked and island LDCs. Road density in most LDCs remains much lower than in many developing countries. Despite efforts to expand the road network in many LDCs, the lack of adequate and effective maintenance has led to a rapid deterioration of a significant part of the existing road infrastructure. Growth performance in the rail transport sector has been even more sluggish and the problem is compounded by lack of equipment and poor management. Inadequate communications systems in LDCs are a major bottleneck to providing required services to other sectors of the economy, particularly the commercial sector. The international community should support arrangements to help LDCs to benefit from the rapidly growing telecommunications technology. Further efforts should be undertaken in the area of air transport to encourage cargo pooling and the development of joint maintenance facilities at the subregional level.

Developments relating to social indicators

The persistent decline in human welfare in most LDCs and inadequate progress in mobilizing and developing their human capacity have adversely affected their development. As many as 42 LDCs were classified in 1994 in the low category of human development, as

defined by UNDP. Despite the increasing attention being paid by LDC Governments, population growth rates are still generally higher, on average, than those in other developing countries. In African LDCs, in particular, the rate is accelerating. The Programme of Action adopted by the 1994 International Conference on Population and Development committed the international community to achieving quantitative goals in three mutually supportive areas of critical importance to other population and development objectives: education, reduction of mortality rates in infants, children and mothers, and universal access to family planning and reproductive health services. In the case of LDCs, a critical element in the achievement of these goals is the funding of population policies and programmes, which must be sustained and insulated from short-term budgetary pressures if they are to be effective.

It is important that priority be assigned to greater coverage and improved management for delivery of social services, including primary education and health care, as well as to improving their quality. Domestic resources alone will not be enough to meet the social sector expenditures, particularly in health and education areas. The role of external financing, therefore, continues to be particularly important. Donors will need to provide aid to the social-sector programmes and projects on a longer-term and predictable basis and to provide support for recurrent and local expenditures.

Social issues continue to be high on LDCs' development agenda. The forthcoming World Summit for Social Development and the Fourth World Conference on Women in Development present unique opportunities for the international community to agree on strategies and policies for these issues in favour of LDCs.

External environment and inadequacy of support measures

As the LDCs moved into the 1990s their share in both world exports and imports fell by one half and one third from the already meagre levels of 0.6 per cent and 1.0 per cent, respectively, in 1980. Moreover, the ratio of their exports to GDP fell from over 17 per cent to 14 per cent during the same period. This trend indicates that LDCs as a group have become further marginalized in the world economy in general and in international trade in particular. This intensifying marginalization, to a large extent, can be attributed to their continued reliance on the export of primary commodities. Sluggish external demand for those commodities and their falling world prices have adversely affected the export performance of many LDCs. While nominal dollar prices of many commodities recovered in 1994, there is always the apprehension that market sentiments could be quickly reversed.

Regarding the outcome of the Uruguay Round, a major concern for LDCs is that they will suffer erosion of preferential margins on most of their important exports to major markets, implying a loss of comparative advantage and, consequently, a loss in export market shares and export earnings. In addition, the net food-importing LDCs are likely to face higher food import bills, at least in the short-run, resulting from the agreement on agriculture. Thus, there is a compelling case for external support to mitigate possible adverse consequences on LDCs due to the Uruguay Round agreements, particularly through the provision of additional trade preferences, compensatory financing, ODA and debt relief.

As regards external financing, there has been little progress in the implementation of ODA targets adopted in the Programme of Action. According to preliminary estimates, ODA flows from DAC countries, and multilateral agencies mainly financed by them, to LDCs declined in absolute terms by almost $1.3 billion in 1993. The ODA/GNP ratio for

DAC donors as a whole declined to 0.07 per cent in the same year. However, the donors' performance varies widely. Four DAC countries (Denmark, the Netherlands, Norway and Sweden) met the 0.2 per cent target, and two others (France and Portugal) the 0.15 per cent target in 1993.

The overall aid outlook continues to be uncertain owing to, *inter alia*, the stringent budgetary situation in most donor countries. In this situation, LDCs must be given priority attention in aid allocations. Generous replenishment of the soft-term windows of the international financial institutions, as well as of grant-based multilateral programmes, will be of crucial importance. The possibility of tapping new sources of finance, such as special drawing rights (SDR) allocations and IMF gold sales, to help LDCs' development efforts should also be explored. ODA should be linked more closely to LDCs' long-term socio-economic objectives, and further improvements should be made in aid coordination and aid quality to enhance ODA's effectiveness. It is also important to provide the requisite quick-disbursing assistance to facilitate stabilization and short- to medium-term adjustment measures.

Another important element in LDCs' external environment is the issue of debt. The external debt burden remains exceptionally high for most LDCs. At end-1993, their total debt stock stood at $127 billion, an estimated 76 per cent of their combined GDP. For almost half the LDCs, the size of the debt stock equalled or exceeded their respective GDP. The share of multilateral debt in total long-term debt, as well as debt service, has increased considerably in recent years. Effective reduction of other liabilities, such as official bilateral and commercial debt, coupled with increased ODA, will be required to bolster LDCs' capacity to service their growing obligations to the multilateral institutions.

Meeting future challenges

As noted above, the challenges LDCs face in the second half of the 1990s will require a broad range of actions aimed at strengthening national policies and external support measures. LDCs' national policies in the coming years should focus more on the following priority areas:

- Strengthened macroeconomic and sectoral policies, including designing, sequencing and management of policy reforms, as well as complementary efforts including the mobilization of domestic resources;
- Development of human resources, particularly through greater investment in education, training, health, nutrition and family planning;
- Poverty alleviation and sustainable development;
- Greater emphasis on the productive sectors, in particular agriculture, industry and infrastructure, to improve and diversify their supply capacity;
- Improved trade and investment policies for greater external orientation;
- Governance-related concerns including popular participation, the role of women, increased participation of the private sector and non-governmental organizations; civil service reform to strengthen national administrative and management capacity; and greater emphasis on the rule of law to assist in the avoidance and/or peaceful resolution of potential political and social conflicts.

These tasks are colossal and beyond LDCs' capacity to implement on their own. External cooperation - financial, technical and commercial - will be of critical importance

in shaping the future growth and development of LDCs. Recent improvements in the economic performance of the major donor countries should lift the constraint on the provision of ODA. Donor countries are now in a better position to fulfil their commitments to provide substantially increased external financial support to LDCs. In particular:

- Donors should expeditiously fulfil their commitments to provide a significant and substantial increase in the aggregate level of external support to LDCs, keeping in mind the increased needs of these countries, as well as the requirements of the countries included in the list of LDCs following the Paris Conference;
- The quality of assistance needs further improvement; assistance should complement national efforts and be consistent with development priorities of the recipient countries; and adjustment and policy reforms in LDCs should be buttressed by adequate external financial support;
- New initiatives in the context of an international debt strategy should be launched to cancel LDCs' debt and allow them a clean start with regard to their external obligations;
- Priority should be given to operationalizing the Marrakesh Ministerial decisions in favour of LDCs and the net food-importing countries and to setting up "safety net" measures to enable LDCs to tide over possible unfavourable consequence of the Final Act of the Uruguay Round.

It is expected that the analysis and recommendations in this and previous annual Reports will be of value to Governments in conducting the Mid-term Global Review and in deciding on the policies and measures to be taken to ensure the full and effective implementation of the Programme of Action during the second half of the decade.

It is hoped that Governments will spare no efforts at the Mid-term Global Review to provide renewed impetus to the implementation of the Programme of Action and to ensure acceptable standards of living for the deprived millions of people in LDCs as they enter the next millennium.